



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Edelen Releases Audit of Clinton County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Clinton County Fiscal Court for the fiscal year ended June 30, 2011. State law requires annual audits of county fiscal courts.

The audit found that the county's financial statements, in all material respects, fairly present the county's assets, liabilities, and net assets arising from cash transactions and revenues received and expenditures paid in conformity with the modified cash basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comment:

- **The fiscal court should advertise for and award bids in accordance with KRS 424.260 and the county's administrative code.** During the review of expenditures, we noted one instance during which bids were not obtained as required by KRS 424.260 or were not awarded in accordance with the county's administrative code. The Clinton County Fiscal Court received a federal grant totaling \$97,413 to be used for the purchase of cardiac monitors. The county did not advertise for and obtain bids for the cardiac monitors.

KRS 424.260 states "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except for perishable meat, fish and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than \$20,000, without first making newspaper advertisement for bids." The county's administrative code requires that any

purchase over \$20,000 be bid. We recommend the fiscal court comply with KRS 424.260 and the county's administrative code by obtaining and properly awarding bids for all purchases over \$20,000.

County Judge/Executive Lyle Huff's response: No response.

- **The jailer should submit sales tax reports in a timely manner.** During our test of sales tax we noted the jailer did not submit sales tax reports to the Department of Revenue in a timely manner. As a result of this, the jailer paid a total of \$296 for penalties, late fees, and interest. KRS 139.550 requires sales tax collected by retailers to be remitted to the Kentucky Department of Revenue on or before the 20th day of the month following each calendar month. In addition, since the jailer did not file any sales tax reports until November of 2010, he was required to pay assessments of \$547 and \$534 for July and August of 2010, respectfully. These assessment amounts were used to pay the actual amounts due to the Department of Revenue once reports were prepared and submitted. Any remaining balance of these assessments is available to the jailer for a refund or it may be applied to future amounts due. Of the assessment amounts previously noted, \$454 is currently on account with the Department of Revenue. We recommend the jailer file sales tax reports in a timely manner to avoid penalties, late fees, and interest. We also recommend the jailer request a refund of the amounts overpaid to the Department of Revenue.

County Judge/Executive Lyle Huff's response: Reserve response.

County Jailer Gene Ferrill's response: Sales tax reports are being made per auditor recommendation.

- **The fiscal court should improve internal controls over payroll.** As a result of our audit, we noted the fiscal court had weaknesses in internal controls over the payroll process. During our review of payroll, the following instances were noted:
 - Two employees charged sick and vacation days which could not be verified against sick and vacation leave balances.
 - One timecard was not signed by a supervisor. The road supervisor submits a timecard; however it is not reviewed by his supervisor.
 - Two timecards did not support amount paid for hours worked. One employee was paid for 88 hours worked; however the employee's timecard reflected only 83 hours worked. A second employee was paid for 88 hours worked; however the employee's timecard reflected only 84 hours worked.
 - One employee tested was not paid overtime for hours worked. During the period reviewed the employee worked 96 hours and was on call for 18 hours and was paid 96 hours regular time and 18 hours for on call.
 - Nine employees had withholdings that were not supported by withholding authorizations.
 - Salary employees did not always account for a 40 hour work week.
 - One department received pay at time and a half while a second department received comp time. However comp time does not appear to be authorized by the county's policy.

- One individual employee who maintains their own balances for sick and vacation time could not produce the records for the time period being audited.
- Payroll checks for the pay period ended July 15, 2010 were issued prior to payday.
- Two employees appeared to be improperly classified as part-time for retirement purposes. Retirement is not withheld and remitted for employees who, on average work 100 hours or less a month. During fiscal year 2011, the first employee averaged 110 hours per month and the second employee averaged 124 hours per month.
- During the test of health insurance, incorrect health insurance premiums were being withheld from several employees' payroll checks. In addition, the county continued to pay health insurance premiums for several employees after they were terminated. Insurance withholdings and payments for the month of November 2010 were tested. Fifteen employees had incorrect deductions from their payroll checks. Five employees had overpaid \$135, two had unexplained withholding of \$41 and eight had under paid \$163 for the month of November. In addition a total of \$128 was paid by the county for three terminated employees that should have been removed from the county's insurance billing. Inquiry was made to the payroll officer who stated an attempt to correct the problem with the insurance withholdings is ongoing. Variances found by the auditor cannot be explained.

We recommend the fiscal court strengthen internal controls over the payroll process to ensure timecards/timesheets are prepared each pay period, accurately account for time worked, are submitted and signed by employees, and approved by supervisors. We also recommend the fiscal court takes steps to ensure overtime is properly calculated based on an established work week in compliance with their administrative code. We recommend that employees who average more than 100 hours a month have retirement withheld. We recommend that signed authorizations be maintained in the employees' personnel files for all additional withholdings, that a record of sick, vacation, and comp time be maintained by the payroll officer. We also recommend the fiscal court review their administrative code to ensure compliance with their code.

County Judge-Executive Lyle Huff's response: We will implement the new timecard machines. Also, corrections will be made in payroll as an insurance adjustment departmentally.

- **The fiscal court should improve internal control procedures over receipts and disbursements.** As a result of our audit, we noted a lack of segregation of duties exists over the following accounting functions: receipts, collection and processing, recording-keeping, disbursement processing, report preparation and reconciliations. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

The county treasurer prepares and deposits the receipts, posts to the ledger and prepares reports from these ledgers for submission to the Department for Local Government, and performs the bank reconciliations. The occupational tax administrator receives and documents payments received for occupational tax and net profits. The finance officer prepares a listing of bills for fiscal court's approval and prints the checks. The county judge and county treasurer sign the checks without comparing to the invoices.

To adequately protect employees in the normal course of performing their assigned functions and to protect the fiscal court against inaccurate financial reporting, we recommend the fiscal court

separate the duties in preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this.

We also recommend the county treasurer and county judge executive, prior to signing the checks; compare them against the original invoices. Additionally, we recommend the ledgers be maintained by the county treasurer and finance officer and reconciled monthly with documentation of the reconciliation noted.

County Judge-Executive Lyle Huff's response: The treasurer and myself will work accordingly with the auditor's recommendations.

- **The fiscal court should improve purchase and procurement procedures.** During our review of expenditures we noted numerous deficiencies in purchase and procurement procedures. From our sample of tested expenditures we noted the following: thirty three invoices reviewed were not cancelled after payment was made, 14 invoices were not paid within a 30-day time period, one invoice reflected a pass due balance, two invoices were paid without a purchase order, three invoices were not approved by the supervisor for travel reimbursements, seven PO's were missing supporting documentation, one payment was greater than the amount approved by the fiscal court, three expenditures were posted to the wrong account, three overpayments were made to vendors, two underpayment were made to a vendors, one invoice was a copy, one invoice was a fax, one invoice could not be located, and appears to be a duplicate payment to the vendor, interest was paid on the county's credit card, and it was also noted that payments were being made from statements and invoices causing duplicate payments to be made to a vendor. These duplicate payments were credited back to the county on the following month's statement. Auditor also noted haul tickets were not signed by a county employee nor were they turned into the finance officer by a county employee. All haul tickets were turned in by the vendor to the finance officer.

Good internal controls dictate that adequate original supporting documentation be maintained for all disbursements. All original vendor invoices and receipts should be maintained including any supporting documentation, agreed to the corresponding purchases order, and cancelled upon payment. All purchases orders should be approved and issued before the work or service is performed. KRS 65.140 also states "Unless the purchaser and vendor otherwise contract all bills for goods and services shall be paid within 30 working days of receipt of a vendor invoice."

We recommend the fiscal court maintain all original vendor invoices including any supporting documentation, pay vendors according to invoice, issue purchase orders before work or service is performed, cancel all vendor invoices when paid and comply with KRS 65.140 by paying vendors within 30 working days unless the purchaser and vendor otherwise contract. We also recommend supervisors approve invoices for travel reimbursements. In addition, we recommend all haul tickets be signed by a county employee, and turned into the finance officer to be matched to the vendors invoice before the invoice is paid.

County Judge-Executive Lyle Huff's response: Finance officer will correct per recommendations of audit.

- **The jailer lacks adequate segregation of duties over the inmate and jail canteen accounts.** The Clinton County jailer lacks adequate segregation of duties over the inmate and jail canteen accounts. The jailer does not appear to monitor or involve himself in any accounting issues in regards to these accounts. During the course of evaluating internal controls over the accounts, the following were noted:
 - a) The jailer's bookkeeper performed cashier duties of the jail canteen;
 - b) The jailer's bookkeeper solely recorded all entries into the receipts and disbursements ledgers of both accounts;
 - c) The jailer's bookkeeper was an authorized check signer for both accounts. In most cases the bookkeeper prepared the checks, posted them to the ledgers, and delivered disbursements without any appearance of the jailer's review;
 - d) The jailer's bookkeeper prepared all reconciliations of the receipts and disbursements ledger to bank records. It should be noted, the bookkeeper did not accurately perform these reconciliations.

The jailer's bookkeeper performed all accounting functions for the jail canteen and inmate accounts without any oversight in these financial areas. This resulted in the bookkeeper having access to all cash receipts, disbursements, and financial records of the accounts. The jailer does not have any compensating controls in place to offset the lack of segregation of duties.

A segregation of duties over daily checkout procedures, deposit preparation, the preparation of checks, and bank reconciliations are essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Clinton County jailer should separate the duties involved in receiving cash, recording cash, preparing bank deposits, check preparation, and reconciliation of bank records to the ledgers. If these duties cannot be separated, strong oversight over these areas should be provided. If the jailer does implement oversight instead of segregating duties this should be documented on the appropriate source document.

County Judge-Executive Lyle Huff's response: Reserve response.

County Jailer Gene Ferrill's response: Per recommendation of this audit, the jailer will take a more proactive role with the auditor's advice and recommendations.

- **Receipts of the commissary fund and the jail inmate fund were not deposited in a timely manner.** During our testing of the receipts of the commissary fund and the jail inmate fund, we noted that receipts were not deposited in a timely manner. Nineteen deposits totaling \$10,026 and 13 deposits totaling \$3,185 were not made to the jail commissary and the jail inmate funds respectively until after the end of the fiscal year. These deposits cleared the bank between July 6, 2011 and September 21, 2011 and were for receipts collected from July 13, 2010 through June 30, 2011.

Due to these delays in making deposits, on September 22, 2011 auditors performed a surprise cash count of all funds on hand at the jail. We found that the jailer had a total of \$882 in cash and money orders on hand at that time. We then obtained the daily collection sheets and copies of the bank statements for both the jail commissary and the jail inmate funds for the period of July 1, 2011 through September 22, 2011. Using the jailer's receipts records, we calculated the total recorded receipts of each fund for this time period and compared these totals to the amounts deposited since June 30, 2011. We found that jail commissary fund receipts for this period totaling \$1,968 and jail inmate fund receipts totaling \$4,473 had not been deposited as of September 22, 2011. With the funds on hand at the jail as of September, 22, 2011 this leaves a total of \$5,559 that was not accounted for. Based on these findings it appears that receipts collected from July 1, 2011 through September 22, 2011 were used to cover undeposited receipts for the fiscal year ending June 30, 2011.

We recommend the jailer implement controls to ensure that all receipts of both the commissary fund and the jail inmate fund be deposited in a timely manner. These findings will be referred to the appropriate authorities for investigation.

County Judge/Executive Lyle Huff's Response: Reserve response.

County Jailer Gene Ferrill's Response: After this audit the Jailer has implemented a strong oversight of all accounts. As of this day November 15, 2011, all funds and receipts are accounted and deposited.

This report, in its entirety, can be accessed on the Internet at the following site: [here](#).

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